

April 20, 2007

Ms. Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Re: Proposed Statement on Subprime  
Mortgage Lending

Dear Ms. Rupp:

Navy Federal Credit Union provides the following comments in response to the Proposed Statement on Subprime Lending issued by the National Credit Union Administration, Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of Thrift Supervision (the Agencies). Navy Federal is the nation's largest natural person credit union with \$28 billion in assets and nearly 3 million members.

Navy Federal shares the Agencies' concern that recipients of subprime lending may not fully understand the consequences of obtaining certain loan products. Subprime lending is defined by NCUA as the practice of extending credit to borrowers who have weak credit histories or reduced payment capacity. Navy Federal, in concert with the credit union movement, has long served borrowers that have weakened or blemished credit histories, in its efforts to serve all members. Subprime borrowers may not qualify for traditional mortgages and may find little or no alternative to purchasing a home. Subprime mortgage products have provided marginal borrowers the solutions for owning a home. By extending these types of loans to members, credit unions are able to serve the underserved in the credit market.

In the current housing environment, credit unions can step in and help their subprime members obtain credit by providing alternative lending products. However, in so doing, credit unions should fully inform borrowers on all features of mortgage products, including subprime products. For example, borrowers should be informed about the terms, costs, and risks associated with subprime products when deciding which mortgage is best for them. With these precautions, subprime mortgage lending can be a beneficial tool in facilitating home ownership nationwide.

To better educate borrowers, financial institutions can offer financial education seminars. For example, Navy Federal offers a free-of-charge, first-time homebuyer seminar, which provides members an in-depth look at the characteristics and features of available mortgage products and the home purchasing process. This service can help potential borrowers to be aware of the risks associated with subprime and other loans.

Navy Federal does not believe that subprime loans necessarily present inappropriate risks. Financial institutions who offer subprime products must have safe and sound underwriting guidelines, which take into account not only debt-to-income analysis, but also the level of overall debt, term of employment, and potential for increased earnings.

Understanding the needs and intent of borrowers is also important. For example, a military borrower who plans to stay in a home a short period of time may not need a fully amortizing thirty-year mortgage. Additionally, borrowers who expect a significant increase in pay, to reestablish sound credit, or to repay a loan in a few years may find subprime lending products more appropriate. Financial institutions can ensure that borrowers are not steered toward particular products by taking the time to gain this understanding and by providing advice, at the time of application, on the mortgage products available.

We do not believe that adopting this proposal would unduly restrict the ability of existing subprime borrowers to refinance their loans to more traditional mortgage products, provided such loans were originally based on prudent underwriting standards. Further, inasmuch as the loans were originated in the last six months, they should have been made in line with this guidance, which, for the most part, reflects that finalized in the October 2006 Interagency Guidance on Nontraditional Mortgage Product Risks. In this regard, by now, most financial institutions should have incorporated sound guidelines into their mortgage approval process for higher risk loans.

With respect to all mortgage products, we feel that it is unnecessary to require advertising disclosures beyond that already issued at 12 CFR 226.16 and 12 CFR 226.24 (Regulation Z). Any additional advertising requirements, as currently proposed, could become burdensome to borrowers and lenders. While advertising is an effective way to reach and inform potential borrowers, we believe that it is not the proper forum to include numerous details on potential payment increases and new payments calculations, costs of reduced documentation loans, and tax and insurance responsibilities. Advertisements that include these additional disclosure requirements could be too lengthy and confusing to members.

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We appreciate the Agencies' efforts to bring attention to subprime lending concerns and appreciate the opportunity to provide comments on the Proposed Statement on Subprime Mortgage Lending. While we understand the risks associated with subprime lending, we believe that these products have a place in our economy and can provide an important benefit to borrowers.

If you have any questions with respect to our comments, please contact Shannon Tackett, Policy Analyst, at (703) 206-2577.

Sincerely,

A handwritten signature in black ink that reads "Cutler Dawson" with a stylized flourish at the end.

Cutler Dawson  
President/CEO

CD/st